Second Member of Council.—Will be enquired into. The Chief Engineer says that the estimate has come up to Rs. 79,000. It will be scrutinised and sent up to Government for approval shortly.

SUPPLEMENTAL SUBJECTS.

(Nos. 285 and 286.)

SUBJECT No. 285.

Income-Tax.

Messrs. Ramachandra Rao Scindia, Mysore Chamber of Commerce; H. Krishna Sastry, Krishnarajapete Taluk; S. Krishnaswami Rao, Mysore Taluk; S. Seetharamiah, Shimoga Taluk; C. Venkatamuniah Setty, Arya Vaisya Maha Sabha; Subbaraya Setty, Bowringpet Taluk; Kannasettappa, Chikballapur Taluk; and Nanjundappa, Vadigenahalli Municipality.

(*a*) The operation of Sections 17 and 18 of the Income-Tax Regulation may be held in abeyance for ten years.

(*b*) For the first year, no accounts may be demanded but the figures rendered by the merchants may be accepted, the differences being made up after the close of the year on the inspection of accounts.

(*c*) Bad debts may be deducted from the income although they are written off in the accounts.

(*d*) Interest at 6 per cent on the capital of the assessee may be deducted from the income.

(*e*) Deductions may be given for sums spent on charity donations, presents and commission.

(*f*) The dwelling house of the assessee in which he actually lives may be exempted.

(*g*) Applications and appeals regarding income-tax may be exempted from stamp duty.

(*h*) Committees composed of officials and non-officials may be established in important trade centres for the disposal of the appeals.

(*i*) The income accrued outside Mysore including dividends and pensions may be exempted, since such items are subjected to income-tax in British India.

(*j*) In all calculations, the sum of Rs. 2,400 may be deducted and only the remaining amount may be assessed.

(*k*) A *panchayet* of officials and non-officials may be authorised to determine the income for assessment.

Before the subject was taken up for discussion, the attention of the members was invited to the following Order of Government issued on 20th October 1920 of which spare copies were distributed among them and they were asked to confine their remarks to only such points as had not already been disposed of in the Order :—

Levy of Income-tax.

READ—

Letter dated 4th October 1920, from Mr. M. Venkatakrishniah, President, Citizens' Meeting, Mysore City, forwarding for the consideration of Government, a copy of the proceedings of the aforesaid meeting held on the 28th September last, in connection with the levy of Income-tax.

2. Notes of representations made by a deputation of merchants of Mysore, that waited on the Dewan of Mysore on 11th October 1920 in the same connection.

ORDER No. 26-28—I. T. 17-20, DATED, CAMP MYSORE, 20TH OCTOBER 1920.

Government have carefully considered the several representations made by the deputation and are pleased to record their replies and observations in regard to each one of them as noted in the memo annexed to this order.

Necessary further instructions based on the above observations will be issued by the Commissioner of Income-tax.

C. S. BALASUNDARAM IYER,
Chief Secretary to Government.

To—The Commissioner of Income-tax in Mysore.
The President of the Citizens' Meeting, Mysore City.
PRESS TABLE.

Representation.	*Reply.*
1. Accounts are asked for 1919-20. Many traders have not maintained any accounts, while those who have maintained some sort of accounts find it difficult to prepare a correct return.	The return of income for 1919-20 is for the purpose of making a preliminary assessment of the tax for 1920-21. When the final accounts for 1920-21 are available, necessary adjustments in the tax will be made with reference to the actual income for the year. So the Income-tax Department will be satisfied if, in such cases, reasonably approximate accounts are submitted. If there appears to be great disparity between the return submitted and what is believed to be the true income, the Income-Tax Collector will send for the parties and if the parties assure the Collector that the return already submitted represents the true income, such assurance will ordinarily be accepted.
2. The form of notice referring to penalties in case of submission of inaccurate returns is unduly severe.	The form of notice follows the wording of the Regulation: in actual working, there will be no severity.
3. Interest on one's own capital put in business should be deducted from profits.	There is no justification for this. If the interest is deducted from the "profits of the business", it will still have to be taxed under "other sources."

4. Members of the family who work in a shop are not given any salaries, but their expenses have to be met. No allowance is also made for expenditure of a charitable nature. To meet all these, a rebate of 25 per cent of the profits should be allowed and tax levied only on the balance or the first 2,400 rupees may be excluded from taxation.	This is not possible under the Regulation. The Regulation follows the lines of the British Indian Act, but the rates of tax in Mysore are very much lower than in British India. If rebates are to be allowed, it may be necessary to raise the rates of taxation. The point will however be noted for consideration when the Regulation is next taken up for amendment.
5. Tax should not be levied on the rental value of the house occupied by the owner.	There is no reason to exempt the income from investments in the shape of house property. The point is however noted for consideration when the Regulation is taken up for amendment.
6. It appears that stamp duty at the rate of one rupee or eight annas will have to be paid in respect of appeals and petitions in regard to Income-Tax matters. It should be ordered that no stamp duty need be paid.	This cannot be done as stamp duties are levied by law for purposes of revenue. In prescribing a schedule of rates, moderate rates of duty will be fixed.
7. The provision regarding a fine of Rs. 10 per day in case returns are not submitted should be held in abeyance for two years.	This is not possible. A penal provision is necessary but it will be worked only in a considerate manner. It is only in case of persons who are recalcitrant that there will be any necessity to prosecute. Prosecution will be ordered by high officials and only First Class Magistrates will ordinarily try cases.
8. The assessees in Mysore City should not be asked to produce their accounts before the Special Collector in Bangalore.	The Special Collector will spend about half the month at Mysore City where he will have an office. If assessees are called upon by the Special Collector to produce books of accounts, he will not require their production in Bangalore but only at Mysore City.
9. There should be a Board of officials to hear appeals from the Commissioner of Income-Tax.	This is not necessary. Government is the authority next above the Commissioner and it will be open to assessees to bring up any cases to Government by means of revision petitions.
10. In view of the levy of the Income-Tax, Octroi duties in Municipalities should be abolished.	This is a matter for consideration and representations through the Municipal Councils concerned.
11. It is not convenient to close the accounts for the official year. Merchants may be permitted to submit their accounts for the calendar year.	Accounts to be submitted for the "previous year" may be either for the previous official year or for the previous calendar year or for the year beginning and ending with Yugadi or for the Marwari year beginning and ending with Dipavali as may be elected by the assessees. This is allowed by the Regulation.

12. The Special Collector has, in some instances refused to give extension of time for submission of returns of income. Extension of time may be given up to end of December.

Extension of time up to the end of November will be given.

13. The forms of return are very complicated and assessees may be permitted to give their total income in a lumpsum without details.

It will be sufficient if information as to income under main heads is given. All reasonable help to prepare accounts will be given by the Income-Tax staff.

14. Bad debts should be deducted from profits and tax should be levied only on income actually received.

Bad debts when atcually written off the accounts may be deducted from the profits. This is provided for in the rules.

Income accrued, but not actually received, will not be assessed unless it has been credited in the accounts.

15. It is a great hardship that the income of Joint-Stock Companies is taxed at the maximum rate of one anna and that shareholders who are not liable to be taxed at this rate have to obtain refunds. The income of the individual shareholders only should be taxed or if this is not possible at least arrangements may be made to grant refunds on applications sent through the companies concerned.

It is not possible to give up the system of taxation at the source in such cases as that would result in a considerable amount of income escaping taxation; but endeavours will be made to have the refund procedure simplified as much as possible. There would be no objection to refund applications being entertained if sent through the Companies concerned.

After going through the above Order of Government, Mr. C. Narasimhaiya, Advocate, discussed the subject on behalf of the other members.

Mr. C. Narasimhaiya.—The levy of income tax has become a source of trouble especially to the merchants. The trouble is due to accounts having had to be maintained of interest on capital. The word *income* has not been defined in the Regulation. There are different kinds of income *viz.*, agricultural income, industrial income, business income, ordinary income, etc. According to Section 9 of the Regulation, tax is levied on a merchant's income on the profits of the business. The word *profit* too has not been defined. According to *Political Economy*, the word *profit* can only mean the balance that remains after the expenditure and the interest on capital are deducted from the income. Interest on capital should be deducted when levying the tax on income. Under Section 51, the Chief Court is given the power to interpret the order. If Government want the interest on capital to be included, let them say that it should be included. Government reply to question No. 3 of the Mysore Merchants is that "if the interest is deducted from the profits of the business, it will still have to be taxed under other sources". This is not satisfactory. This interpretation is not correct.

Chief Secretary to Government.—This is only a matter of interpretation. You may raise a test case and get it decided judicially. Government interpretation is based on the practice elsewhere.

Mr. C. Narasimhaiya.—The interest on the money sunk in the capital of a business should be taken into calculation in deciding the profits. The interest should be calculated at the market rate.

As regards Reply No. 4.—If a *hissedar* has invested say Rs. 2,000 in a business, the interest on this sum should be deducted from profits and then the profits distributed.

Third Member of Council.—The tax should be charged before the profits are distributed. You should not keep Income-Tax as an item of expenditure. Do you want the reduction to be made on debenture stock or in shares?

Commissioner of Income-Tax.—The firm is one individual.

Mr. C. Narasimhaiya.—But the income is unequal. Is the interpretation to be made by us or by Government? According to law, profit means what remains behind after interest on capital is also deducted. If the money invested in business is used for purchasing agricultural lands, we need not pay the tax. The object of Government should be to promote trade.

The operation of Sections 17 and 18 of the Regulation may be held in abeyance for 10 years. We require some time to prepare our accounts, etc., in a proper form.

Commissioner of Income-Tax.—No balance sheet is necessary. It would quite do if the forms prescribed are filled in.

Mr. C. Narasimhaiya.—No Income-Tax should be levied on the rental value of the house occupied by the owner.

Commissioner of Income-Tax.—This point will be considered by Government when the Regulation comes up for amendment.

Mr. C. Narasimhaiya.—Income-Tax should not be charged on the amount given in charity.

Third Member of Council.—So long as the money is in your possession, the amount will have to be assessed to tax.

Mr. C. Narasimhaiya.—Bad debts should be deducted from profits and the tax levied only on income actually received. Small officials should not be sent to inspect the accounts of merchants. Only big officers may be deputed.

Dewan.—Only responsible officers will be sent.

Mr. R. Gopalasamy Iyer—Supposing we get money by the sale of paddy, say in Tanjore, it should not be taxed.

Second Member of Council.—It is not from Mysore lands.

Mr. Singri Nanjappa.—Compounding for 5 years as in British India may be done here also.

Mr. C. Narasimhaiya.—The income accrued outside Mysore including dividends and pensions may be excepted as it is subjected to income tax in British India.

Commissioner of Income-Tax.—Refunds may be obtained here. If it is paid in 2 places, we will enquire into the matter.

Mr. C. Narasimhaiya.—The *potgi* income should not be taxed.

Dewan.—Noted.

SUBJECT No. 286.

Housing the poor.

Mr. B. Suryanarayana Rao, Hassan Taluk.

The question of housing the poor may be taken up early.

NOTE.—Discussed with General Subject No. 261.

B. SOOBBIAH AND SONS, PRINTERS, BANGALORE CITY.